

A REPORT
TO THE
ARIZONA LEGISLATURE

Accounting Services Division

Compliance Review

Saddle Mountain Unified School District No. 90

Year Ended June 30, 2006



Debra K. Davenport
Auditor General

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Accounting Services Division Staff

Laura Miller, Manager and Contact Person

lmiller@azauditor.gov

Roger Walter

Burim Gashi

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DEBRA K. DAVENPORT, CPA
AUDITOR GENERAL

STATE OF ARIZONA
OFFICE OF THE
AUDITOR GENERAL

WILLIAM THOMSON
DEPUTY AUDITOR GENERAL

January 29, 2008

Governing Board
Saddle Mountain Unified School District No. 90
38201 West Indian School Road
Tonopah, AZ 85354

Members of the Board:

We have reviewed the District's audit reports and Uniform System of Financial Records (USFR) Compliance Questionnaire for the year ended June 30, 2006, prepared by Cronstrom, Osuch & Company, P.C. to determine whether the District substantially complied with the USFR.

As a result of our review, we noted significant deficiencies in internal controls that indicate the District had not complied with the USFR. District management should implement the recommendations we have described in this report within 90 days after the date of this letter. We have communicated specific details for all deficiencies to management for correction.

During the 90-day period, the District may request a meeting to discuss these recommendations with my Office and the Arizona Department of Education by calling Magdalene Haggerty, Accounting Services Director, or Laura Miller, Accounting Services Manager.

A member of my staff will call the receiver who was appointed by the State Board of Education for the District in several weeks to discuss the District's action to implement these recommendations. After the 90-day period, my staff will schedule an on-site review of the District's internal controls to determine whether the District is in substantial compliance with the USFR. Our review will cover the deficiencies we have communicated to management as well as any other internal control deficiencies we are aware of at the time of our review.

Sincerely,

Debra K. Davenport
Auditor General

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INTRODUCTION

Saddle Mountain Unified School District No. 90 is accountable to its students, their parents, and the local community for the quality of education provided. The District is also financially accountable to taxpayers for over \$17 million it received in fiscal year 2006 to provide this education.

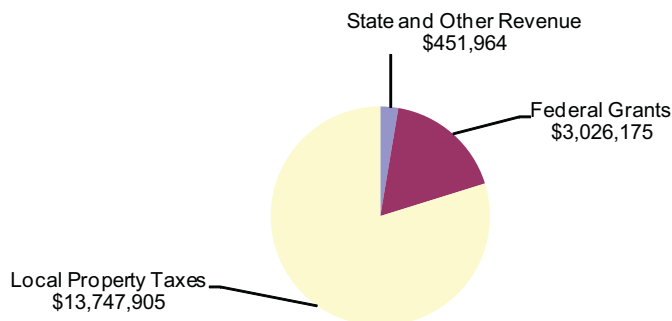
The District should use effective internal controls to demonstrate responsible stewardship for the tax dollars it receives. These controls are set forth in the *Uniform System of Financial Records* (USFR), a joint publication of the Office of the Auditor General and the Arizona Department of Education (ADE). The policies and procedures in the USFR incorporate finance-related state and federal laws and regulations and generally accepted accounting principles applicable to school districts. Districts are legally obligated to comply with USFR requirements, and doing so is good business practice.

As a result of our review of the District's audit reports and USFR Compliance Questionnaire for the year ended June 30, 2006, we determined that the District had failed to comply with the USFR. We noted certain deficiencies in controls that the District's management should correct to ensure that it fulfills its responsibility to establish and maintain adequate financial stewardship and to comply with the USFR. Our recommendations are described on the following pages.

District Facts Fiscal Year 2006

County: Maricopa
Number of Schools: 4

Number of Students: 912
Grade Levels: K-12



Source: *Annual Report of the Arizona Superintendent of Public Instruction for Fiscal Year 2005-2006* and *Saddle Mountain Unified School District No. 90 Annual Financial Report for the Fiscal Year Ended June 30, 2006*.

The District should strengthen controls over competitive purchasing and expenditures

The District exceeded its expenditure budget limits in three funds by the following:

- Maintenance and Operation—53 percent
- Unrestricted Capital Outlay—31 percent
- Soft Capital Allocation—55 percent

The District spends public monies to purchase goods and services. Therefore, the District should ensure that its expenditures are appropriate, approved, adequately supported, and within the fund's budget limits. However, the District did not always meet this objective. For example, the District exceeded its expenditure budget limits for the Maintenance and Operation Fund by 53 percent or \$2,179,964, the Unrestricted Capital Outlay Fund by 31 percent or \$559,852, and the Soft Capital Allocation Fund by 55 percent or \$196,472. Also, the District made expenditures during the year when cash was unavailable in the Bond Building Fund, a cash-controlled fund. The District borrowed available cash from other funds to cover these expenditures.

In addition, it is essential that the District follows the School District Procurement Rules and USFR guidelines designed to help ensure that it receives the best possible value for the public monies it spends. However, the District did not always issue invitations for bids (IFBs) or obtain oral or written price quotations for purchases that required them. Further, rather than using an available purchasing cooperative contract to ensure a competitive price, the District purchased directly from a vendor without obtaining competitive bids or oral or written quotations. Finally, the District's budgeted expenditures reported on its annual financial report (AFR) did not always agree with the District's expenditure budget.

Recommendations

To comply with School District Procurement Rules and USFR guidelines and to strengthen controls over expenditures, the District should perform the following:

- Work with ADE to reduce budget limits for prior year overexpenditures.
- Eliminate all unnecessary expenditures and ensure expenditures are within budget limits.
- Verify that sufficient budget capacity is available in budget-controlled funds and that sufficient cash is available in cash-controlled funds before authorizing expenditures from the funds.
- Issue IFBs or RFPs for all purchases of construction, materials, or services that individually or in the aggregate exceed \$33,689 (the current threshold) and retain all supporting documentation.

School District Procurement Rules provide the requirements for:

- Competitive sealed bids for goods and services in excess of \$33,689.
- Competitive sealed proposals for goods and services when factors other than the lowest cost are appropriate.

- For purchases from a vendor on a purchasing cooperative contract, the District should purchase through the cooperative and not directly from the vendor; otherwise, the District should issue IFBs or RFPs or obtain written or oral price quotations for the purchase, as applicable, to ensure that competitive purchasing guidelines are followed.
- Obtain and retain oral price quotations from at least three vendors for purchases estimated to cost between \$5,000 and \$15,000, and written quotations from at least three vendors for purchases estimated to cost between \$15,000 and the amount requiring competitive sealed bids. If the District cannot obtain three price quotations, it should document the vendors contacted and their reasons for not providing quotations. Also, if a vendor is selected for reasons other than the lowest price, the reasons should be fully documented and retained.
- Assign a second employee to verify that budgeted amounts reported on the AFR agree to the District's expenditure budget before it is submitted to ADE.

Guidelines for oral and written price quotations can be found on USFR pages VI-G-8 and 9 and in USFR Memorandum No. 213.

The District should ensure the accuracy of its student attendance records

The State of Arizona provides funding to school districts based on membership and absences. In turn, the State requires school districts to maintain accurate attendance records to ensure that the District receives the appropriate amount of state aid and local property taxes. However, the District did not accomplish this objective. Specifically, the District did not ensure that the time that students were signed in or out was always recorded on the sign-in and sign-out logs. Also, the District's auditors were unable to recalculate absences for the students enrolled in a Joint Technological Education District (JTED) program. In addition, the District's attendance records (teachers' attendance registers and sign-in and sign-out logs) did not agree to the District's computerized attendance reports submitted to ADE. Also, the District's computerized attendance reports did not agree to the 40th- and 100th-day ADE report on membership and absences. For example, absences at the Ruth Fisher Elementary School were not reported to ADE and resulted in an understatement of 4,548 days. Further, the student entry and withdrawal dates in the District's computerized attendance system did not always agree to the entry and withdrawal forms, and the District did not document whether the student entries and withdrawals were entered into the District's attendance system within 5 working days. Finally, the District did not always submit membership and absence information to ADE at least once every 20 school days. For instance, Ruth Fisher Elementary School made only one submission during the year and Tonopah Valley High School made only four submissions.

The Ruth Fisher Elementary School did not report its absences totaling 4,548 days to ADE.

ADE provides guidance for attendance reporting requirements in its *Instructions for Required Reports*.

Recommendations

To help ensure that the District receives the correct amount of state and local funding, the District should perform the following:

- Retain attendance records such as tardy slips or sign-in and sign-out logs with recorded times to support absences recorded.
- Ensure that absences are recorded in accordance with the chart provided in ADE's *Instructions for Required Reports* based on the number of district classes that the student is enrolled in and attended (excluding JTED classes).
- Ensure that membership and absences reported to ADE agree with the District's attendance records in its computerized attendance system, teachers' attendance registers, and sign-in and sign-out logs.
- Assign a second employee to verify that the entry and withdrawal dates recorded in the District's computerized attendance system agree to student entry and withdrawal forms and teachers' attendance registers.
- Retain documentation to support when student entries and withdrawals are entered into the District's computerized attendance system. Entries and withdrawals should be entered within 5 working days.
- Submit membership and absence information to ADE at least once every 20 school days.

The District's controls over cash should be strengthened

Poor cash controls left district and student activities monies susceptible to loss, theft, or misuse.

The District receives cash from various sources, including food service, auxiliary operations, and student activities. Because of the relatively high risk associated with cash transactions, the District should maintain effective internal controls to safeguard cash and ensure that it is promptly deposited. However, the District did not have adequate controls over its cash receipts. Specifically, the District did not always maintain monthly food service cash sales summaries at two of its schools. Also, the District did not always deposit auxiliary operations and student activities cash receipts intact daily when significant, or at least weekly.

Recommendations

To help strengthen controls over cash, the District should prepare and maintain food service cash sales summaries, at least monthly, to reconcile the amount of cash receipts to cash receipt forms. Also, the District should deposit auxiliary operations and student activities cash receipts intact daily when significant, or at least weekly, in the appropriate bank account.